



Fiscal Year 2025/26 State Governor's May Revision Overview

Finance Department

Finance Committee
June 11, 2025

RiversideCA.gov

BACKGROUND

- The State Constitution and related Government Codes require the Governor submit a proposed budget to the Legislature annually by January 10, provide an update to the proposed budget by May 14 of each year, and that the Legislature pass a budget bill by June 15.
- Governor Newsom released the Fiscal Year 2025/26 State May Revision to the State Budget on May 14, 2025.



2

RiversideCA.gov

OVERVIEW

- The State Governor's May Revision projects an estimated \$12 billion (5.8%) shortfall in FY 2025/26.
- Proposes \$12 billion in solutions in FY 2025/26 to close the General Fund deficit
 - Reductions—\$5 billion
 - Revenue/borrowing/loans—\$5.3 billion
 - Fund Shifts—\$1.7 billion
- Assumes continued withdrawals from state budget reserves.



3

RiversideCA.gov

FY 2025/26 Expenditures

2025-26 Total State Expenditures by Agency
(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$8,195	\$4,555	\$376	\$13,126
Business, Consumer Services & Housing	491	1,320	522	2,333
Transportation	724	17,144	97	17,965
Natural Resources	3,836	3,457	2,472	9,766
Environmental Protection	121	3,865	372	4,357
Health and Human Services	85,362	44,891	450	130,703
Corrections and Rehabilitation	13,406	4,087	-	17,493
K-12 Education	80,344	105	1,517	81,966
Higher Education	23,058	176	551	23,785
Labor and Workforce Development	946	1,143	-	2,089
Government Operations	2,698	180	12	2,890
General Government:				
Non-Agency Departments	1,285	2,096	171	3,552
Tax Relief/Local Government	556	3,727	-	4,283
Statewide Expenditures	5,354	2,232	1	7,587
Total	\$226,376	\$88,978	\$6,541	\$321,895

Note: Numbers may not add due to rounding.



4

RiversideCA.gov

FY 2025/26 Revenues

2025-26 Revenue Sources

(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2024-25
Personal Income Tax	\$125,977	\$3,634	\$129,611	\$130
Sales and Use Tax	34,862	15,770	50,632	1,629
Corporation Tax	35,613	-	35,613	-5,683
Highway Users Taxes	-	9,571	9,571	60
Insurance Tax	4,359	-	4,359	282
Alcoholic Beverage Taxes and Fees	421	-	421	4
Cigarette Tax	35	1,131	1,166	-47
Motor Vehicle Fees	46	12,826	12,872	331
Other	6,145	47,078	53,223	-5,911
Subtotal	\$207,458	\$90,010	\$297,468	-\$9,205
Transfer from the Budget Stabilization Account/Rainy Day Fund	7,100	-7,100	-	-
Total	\$214,558	\$82,910	\$297,468	-\$9,205

Note: Numbers may not add due to rounding.



5

RiversideCA.gov

Budget Proposals

- Budget Reserves and Gann Limit Reforms
- Housing and Homelessness
- Climate



6

RiversideCA.gov

Sales Tax & Economic Forecast Assumptions

- **State sales tax forecast** is \$2 million lower in 2023-24, \$405 million lower in 2024-25, and \$259 million lower in 2025-26.
- Forecast reflects changing national conditions that economists consider to be a “**growth recession**”.
- **Major Consumer Price Index components** are projected to experience higher inflation in 2025 and 2026 as a result of the broad and elevated tariffs.
- **Personal income growth** is expected to slow from 6.5 percent in 2024 to 4 percent and 4.1 percent in 2025 and 2026, respectively (compared to 4.2 percent and 4.6 percent in the Governor's Budget) due to general weakening economic conditions.
- **Wages and salaries** are downgraded by \$36.2 billion per year or 1.8 percent.
- **Forecast for permitted units** is downgraded by 14,000 units or 12 percent on average through the forecast window due to low actuals since Governor's Budget, higher projected interest rates, tariff-induced material cost increases, and potential labor supply issues.



7

RiversideCA.gov

STRATEGIC PLAN ALIGNMENT



HIGH PERFORMING GOVERNMENT

CROSS-CUTTING THREADS



Community Trust



Equity



Innovation

Fiscal
ResponsibilitySustainability
and Resiliency

8

RiversideCA.gov

RECOMMENDATION

That the Finance Committee receive and file a report on the Fiscal Year 2025/26 State Governor's May Revision proposal.

